

EFFECTIVE RETAIL MARKETING:  
A KEY TO SURVIVING THE FERTILIZER SHORTAGE

Dennis R. Henderson

Department of Agricultural Economics and Rural Sociology  
Ohio Cooperative Extension Service  
The Ohio State University

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When I was first asked to discuss effective marketing programs for fertilizer retailers at this conference, the spectre of a product shortage was remote. Thus, I accepted the challenge with enthusiasm, confident that retailers with bins and tanks filled to capacity, would welcome ideas for increasing sales and profitability. As November approached and a serious product shortage became evident, I began to have second thoughts. During a period of product shortage, I wondered, wouldn't the primary concern be with product acquisition rather than sales? And, being no expert on product supply I was about to conclude that there was little if any contribution a marketing specialist could make at this conference.

However, something about that argument didn't ring true. Had I, in fact, overlooked the importance of an effective marketing program as a means for retailers to compete for the limited supply of products? My

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\*\*Assistant Professor, Department of Agricultural  
Economics and Rural Sociology, The Ohio State University.

professional audacity lead me to seriously contemplate this hypothesis. With renewed enthusiasm, I attacked the problem. Armed with this new perspective, I became convinced that an effective retail marketing program is a key to survival during periods of shortages, perhaps even more so than during product surpluses.

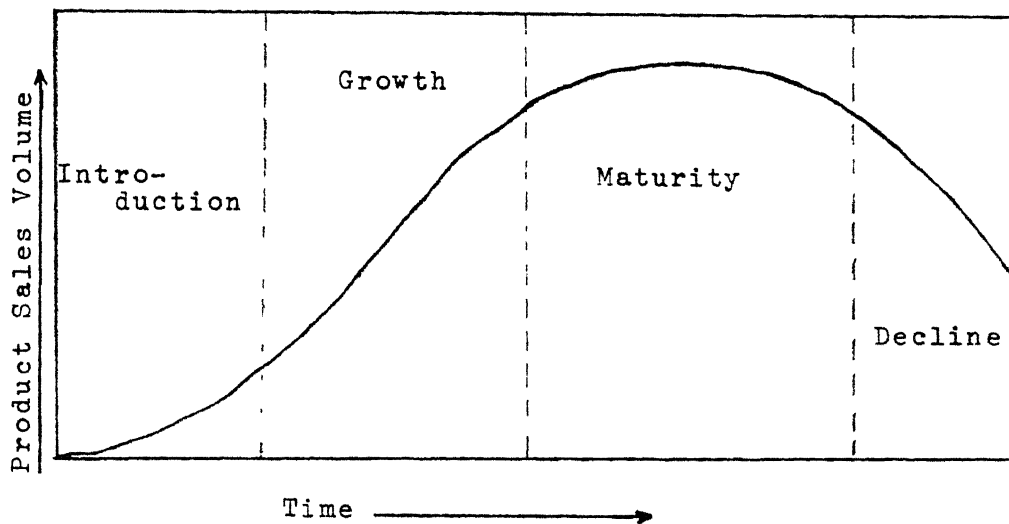
The logic is uncommonly plain and straight forward. An effective marketing program helps a retailer achieve consistent and large-volume sales. With a product shortage basic suppliers tend to allocate supplies to those retailers who have a relatively smooth product movement and large volume. Let's examine this hypothesis in greater detail.

#### The Life Cycle in Marketing

Marketing experts have observed that products, like people, have life cycles. The life cycle for a product can be visualized in four stages (see figure 1): 1) Introduction, the period during which a product is developed and introduced in the market. During this period a few innovative users are becoming familiar with the characteristics and uses of the product. 2) Growth, the period during which many users are experimenting with and adopting the product. During this time sales increase steadily. 3) Maturity, the period of time when most users have adopted the product, a few new users are added to the market while some existing users leave. During this stage sales volume tends to plateau. And 4) Decline, the period while more customers are leaving the market than entering. During this stage

sales trend downward until eventually the product dies, is withdrawn from the market and replaced by other products which are in earlier stages of their life cycles. For example, mixed liquid fertilizers, now in their growth stage, are beginning to replace bulk-blended fertilizers to some extent which are currently at or near the maturity stage. Blended fertilizers, on the other hand, have previously replaced mixed fertilizers which are now in the decline stage of their life cycle.

Figure 1. Product Life Cycle



Retailing institutions also appear to have life cycles. However, while products typically disappear, retailing institutions may have more staying power, particularly if the retailer is willing to make major adjustments, change tactics, aim at different markets, and offer the types of products that satisfy changing customers needs. Our research on the economics of

fertilizer distribution indicates that the predominant institution for fertilizer retailing, local dealerships, may be at the late stage of maturity or early stage of decline. For example, our study has shown that the cost of distributing fertilizer in the midwest through the typical low volume retailer ranges from 17 percent to 46 percent above the costs for alternative high volume facilities, depending upon the specific product. With cost disadvantages of these magnitudes a logical question is: Why haven't these retailers already passed through the decline stage of their life cycles? Or is their continued existence evidence of immunity to such cycles?

Let's assure ourselves that retail dealers are not sacred cows. They are subject to change just as are all other institutions in our dynamic economy. However, there have been several factors that have helped to keep low volume, inefficient operations in business. For example, many dealers have lived off of their investment. That is, they have earned enough to cover most or all of their variable costs, but have not been able to cover their fixed costs. Many, in fact, have paid themselves a below normal wage and have been satisfied with little, if any, return to their investment. As long as these operators are willing to earn less than competitive returns they could remain in business for some time. However, over time their

facilities become worn and obsolete and it becomes difficult to compete with more aggressive, large volume distributors.

Another factor that has kept some less efficient retailers in business is the multiple-market nature of their operations. Numerous fertilizer outlets are operated by a grain company or a feed, petroleum, or other farm input supplier, as a service to their customers. If most fixed costs and even some variable costs are allocated to other parts of the business, the fertilizer enterprise may not appear unprofitable. In many cases, there has been little genuine effort to make the fertilizer segment of such a farm supply business profitable on its own account. Thus, relatively little attention has often been directed toward making this an efficient, high-volume operation. Consequently, many fertilizer retailers have continued in business even though the full costs of their operations would seemingly point to their demise.

Now, however, an additional factor must be considered, the shortage of product. Obviously, a dealer who can not obtain an adequate supply of fertilizer materials will have a head start into the decline stage of his life cycle.

Which dealers will be able to obtain the supplies necessary to assure their own survival? There can be little doubt that fertilizer in a time of shortage will tend to flow to and through those dealers who can best

expedite the logistical problems of distribution. Again, our research has demonstrated that the most efficient institutions and facilities for distributing fertilizers are, in fact, most efficient because they minimize the logistical problems of distribution. That is, they can facilitate the flow of relatively large volumes, on the order of 5,000 to 8,000 tons per year or more, thus eliminating or at least substantially reducing transportation bottlenecks, storage problems, and other logistical headaches that plague basic suppliers in the industry. It is obviously good business to supply first those customers that are easy to supply. In a period of product shortage, dealers that are supplied first may, in fact, be the only ones supplied.

My argument is clear. Many local retail dealers will disappear. The challenge is to survive.

#### Through-Put, Survival, and Marketing Programs

Few businesses can operate profitably at a low sales level. Still fewer will be able to maintain an adequate supply if they continue to operate with low volume. In order to survive, the retail dealer must optimize his product through-put. The pressure to maximize sales is even greater during a period of shortage. The importance of a viable, effective retail marketing program has never been greater. Yet the question remains, how can a retailer develop a marketing plan that will help

solidify his position in the market channel for fertilizer products?

### The Fallacy of the Product

One of the most common of all marketing mistakes is to tie sales effort to a given product. All products have life cycles. Thirty years ago, who would have thought that the railroad industry would one day be in decline? I am reminded of the Boston millionaire who some sixty years ago, confident that he was acting in the best interest of his heirs, stipulated that his entire estate be invested only in electric street car securities. His posthumous declaration "there will always be a big demand for efficient urban transportation" is little consolation for his heirs who are pumping gasoline for a livelihood. The successful marketing manager designs a program aimed at satisfying the needs of potential customers, not at the sale of a specific product. That is, he has what I call a "market orientation", rather than a "product orientation".

Let's now turn our attention to how a market-oriented manager plans a marketing strategy.

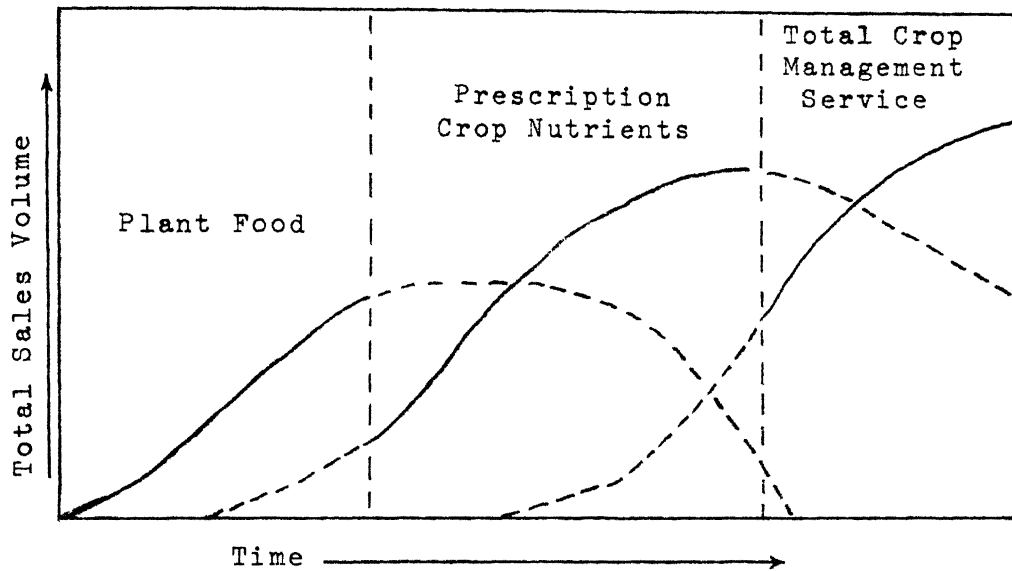
### The "How-To" of Market Planning

The life cycle of a retailer can be separated from that of its products if the marketing effort is systematically re-defined in terms of the customer needs. A fertilizer



dealer, for example, can remain viable over time by changing the types of customer needs that he attempts to satisfy from those met by plant food to more sophisticated needs met with prescription crop nutrients to even more sophisticated needs that can be satisfied through a total crop management system (Figure 2).

Figure 2. Life Cycle for a Market-Oriented Firm



There are four steps necessary for developing this dynamic approach to marketing--steps that help put a ROAR in the marketing program. These are: 1) Reminder. Remember that an effective marketing program is a key to survival in the retail fertilizer market regardless of the supply situation. 2) Objectives must be selected for the marketing plan. That is, the potential customers, or the segment of the market that is the target of the marketing plan must be identified. 3) Action must be outlined in

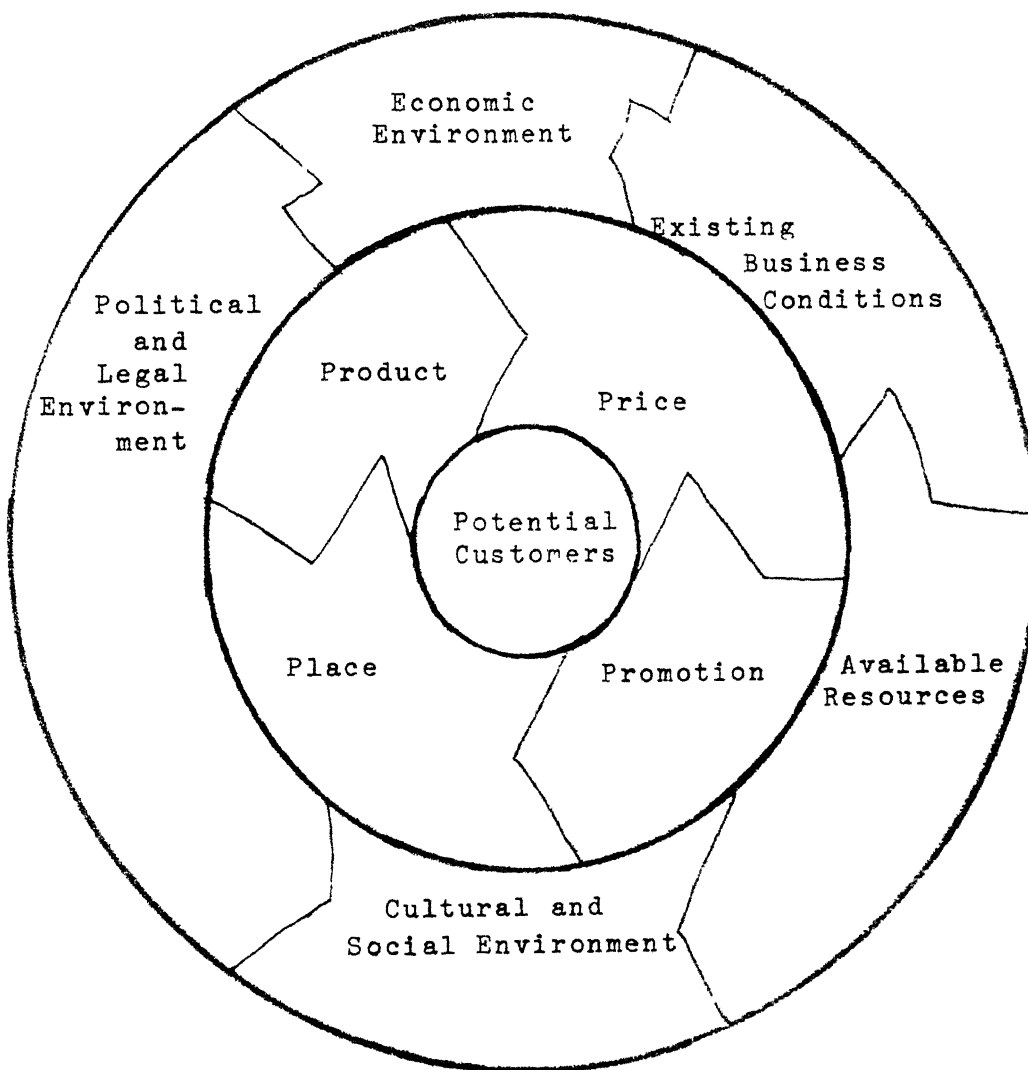
terms of a plan or marketing strategy that will be effective for penetrating the target market, or meeting the objective. And 4) Review and systematically evaluate the marketing effort. Is it generating increased sales and higher profits? How can it be changed to be more effective in the future? Too often this last step is overlooked even though it is frequently the best way to determine what adjustments are necessary to remain viable in the market.

The market plan can be conceptualized as a target with the potential customers at the center, surrounded by the strategy or marketing mix variables; product, price, place and promotion, that are used to hit the target market, which, in turn are surrounded by external constraints over which the firm has relatively little control (Figure 3).

The main ingredient in this process is selecting and correctly identifying the group of customers with greatest potential. The correct marketing strategy in terms of the "four p's" of the marketing mix becomes clear once the characteristics of the target market are known. For example, once the needs of the customers in the target market have been identified, a product can be designed by combining various physical goods with selected services that will satisfy those needs. It then becomes relatively easy to determine if price should be at a discount, near the market average, or

at a premium. Likewise, the place variable can be selected, in terms of the number and type of sales persons and the facilities required for physical distribution, to best serve the target market. Implications become obvious for promotional activities as well; that is, for selecting the mix of advertising and personal selling that is consistent with the customer needs that exist in the target market.

Figure 3. The Target Market and Marketing Mix



Pragmatically, there are four steps necessary to PICK a target market: 1) Prescribe the general area of interest, 2) Identify the need dimensions of customers, 3) Construct a market grid, and 4) Key on attractive looking grids. The general area of interest is a broad industry classification such as feed, farm chemicals, machinery, etc. For most people in this audience this would include fertilizers, limestone, and/or farm chemicals.

It is somewhat more difficult to identify need dimensions among potential customers. This requires a little motivational-type reasoning and research. One approach is to observe farmers in the geographical area and determine their needs as demonstrated by their purchasing behavior. A somewhat more sophisticated approach would be to circulate a survey questionnaire among farmers, asking them to rank the relative importance of a number of factors that may influence their purchase decisions such as price, crop record system and analysis, soil sample collection and testing, technical assistance, dissemination of crop management information, prescription blending of nutrients, custom application, delivery, total crop management, liberal credit extension, ad infinitum.

#### Important Market Segments

My analysis has revealed a number of need dimensions that are typical among farmers. Most of these are readily recognizable. These include the following: 1) Crafty Cost Cutters. These farmers seek to purchase their fertilizer

at the lowest possible price and place no importance on other factors. 2) Busy Businessmen. This group is engaged in several enterprises and want guidance and assistance in making decisions concerning their fertility programs. 3) Imaginative Innovators. People in this need category place a high value on the newest product or technique. To them it is important to be on the cutting edge; to be among the first in an area to use the latest product or technology. 4) Service-Seekers. This group demands a wide range of services along with their fertilizer. Typical needs are for credit, delivery, application, soil testing and the like. Obviously, if the important services aren't provided along with the physical product, a retailer will have difficulty selling in this market. 5) Irrational Investors. Such farmers do not have any business or operating plan but often buy whatever strikes their fancy. The speculative scheme may be the appropriate product for this group. Hydroponics is an example that comes quickly to my mind. 6) Status Symbolizers. Persons in this group value conspicuous consumption and seek to impress others with their purchases. Selling to them requires products with high visibility. 7) Piddling Purists. Such individuals have a strong attachment to the way things have been done in the past. Essentially, this is a manifestation of the "what's good enough for Dad. . ." mentality. Other need dimensions may also be identified among farmers.

Once the need dimensions of farmers in an area have been determined, it is necessary to determine the size of each market segment characterized by these dimensions. Several sources of information can be used for this purpose. Much information exists within a firm. The sales force could be polled or a jury of executive opinion formed. Additionally, information can be gleaned from published research, the census bureau, ASCS records and similar sources.

Once the size of each segment has been estimated a market grid can be constructed showing the relative size of each market segment (Figure 4). The attractive looking segments can then be evaluated to determine where is the greatest economic potential for a given firm. For example, there may be one or two segments where competition is weak or non-existent. In some areas several competitors may be offering a wide range of services aimed at selling primarily to Service-Seekers and Busy Businessmen, while there are no sellers aiming at the Crafty Cost Cutters with a discount pricing policy. If the latter segment is large enough it could be a particularly attractive market. In another area there may be several firms offering a limited range of services with rather aggressive price competition. However, there may be no one providing a wide range of crop management assistance and help in adapting the latest fertility techniques and production innovations. In such a case, the most effective marketing strategy might be aimed at

Busy Businessmen and Imaginative Innovators. With this approach, the retailer can concentrate on those groups of customers who offer the greatest profit potential for his firm. At the same time, careful evaluation of the need dimensions of these customers yields substantial insight into the proper marketing strategy for sales optimization.

Figure 4. Grid of Retail Fertilizer Market Segments

Crafty Cost Cutters		Service Seekers	
Irrational Investors			
Status Symbolizers	Busy Businessmen	Imaginative Innovators	
Piddling Purists			

#### Determining the Marketing Mix

A brief look at marketing strategies, once the market characteristics are known, is in order. Let's look at the appropriate marketing mix for each of three hypothetical fertilizer retailers who have identified different target markets (Figure 5). The first Farmers Friendly Fertilizer Facility, has selected Service Seekers for his primary market. To sell to this market most

effectively, he has defined his product not as fertilizer, but prescription nutrients custom blended to fit the specific crop needs of his customers, with delivery and application included. The appropriate pricing strategy would likely be to charge about the average price in the market to a slight premium. The place variable would be optimized by using order-taking salesmen who call upon farmers, take soil samples, and coordinate delivery and application. The actual location of the facility is of relatively little importance due to the emphasis on delivery and the use of outside salesmen. Promotion would be optimized with selective advertising such as direct mail oriented toward informing customers of the available services, complemented by personal selling efforts on the farm.

Another retailer, TechNo Chem AgroMatic Systems Unlimited, may have selected Imaginative Innovators as a target market. This dealer would present his product as the most up-to-date technological crop production system available. Price, of course, would be at a premium level. The place or channel decision would emphasize the use of an order-getting technical advisor who would personally consult with each customer. The location of a retail outlet would be of no importance from a marketing viewpoint as all material would be delivered and all customer contact would occur at his



place of business. From a promotional stand-point intensive personal selling is called for with maximum emphasis on technical assistance. Technical aids such as electronic calculators, computer terminals and the like would be effective promotional aids.

Figure 5.  
Appropriate Marketing Strategies  
For Selected Segments of the Fertilizer Market

Marketing Mix	TARGET MARKET		
	Service Seekers	Imaginative Innovators	Crafty Cost Cutters
Product	Prescription Fertilizer, Delivered and Applied	Most up-to-Date Technological Crop Production System	Plant Food
Price	Market Average to Small Premium	Premium	Discount
Place	Order-taking Outside Salesmen, convenient location of little importance	Order-getting Technical Advisor, Location of Plant unimportant	Convenient, Drive-in location with order-taker
Promotion	Selective Advertising plus limited personal selling	Intensive personal selling, emphasis on technical assistance	Mass Advertising, Emphasizing low price, convenient location

Our third retailer, Dandy's Discount Dungstore, is keyed to Crafty Cost Cutters. His product would be visualized quite simply as plant food; no frills, no thrills; no services and no delivery. The pricing strategy: low, a discount image. Here the place variable becomes very important. Without delivery a convenient, drive-in location is important to allow customers to easily pick-up their fertilizer. An aggressive salesman is not necessary. All that is required is someone who can take orders and relay them to the warehouse. From a promotional stand-point, mass advertising emphasizing low prices and convenient location seems appropriate.

#### Concluding Comment

Astute observation, deductive reasoning, and some market research thus allow the successful fertilizer retailer to develop a marketing plan that will help him optimize his sales and adjust to changing industry conditions. He can not afford to be lulled into complacency by the short-term spectre of tight supplies and strong demand. Many dealers can survive if they work at it--but it's not an easy task. They are not guaranteed a role in our economy. They must earn their position by out-performing alternative institutions that can perform similar functions. A viable marketing program is an important key to their survival.